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STL.OL - Q1 2015 Statoil ASA Earnings Call

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OVERVIEW:

Co. reported 1Q15 net income of negative NOK35b.



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PRESENTATION

Peter Hutton - Statoil ASA - SVP, Head of IR

Ladies and gentlemen, thank you for joining us for Statoil's first quarter 2015 conference call and webcast. I know today is busy for everyone so we will get straight down to business.

CFO Torgrim Reitan will present for around 15 minutes on the results and the key issues. Then we will open up for questions from the phones for around 30 minutes.

And with that, I pass straight over to you, Torgrim.

Torgrim Reitan - Statoil ASA - CFO

Thank you very much, Peter and good afternoon and welcome. I have three main messages for you today. First, a solid set of adjusted numbers in the quarter despite the challenging price environment.



Second, our reported results are impacted by significant asset impairments. We take a cautious view in the current environment, reflecting the scenarios we outlined at the capital markets update.

Third, our operations are strong and we continue to see positive underlying cost trends. We are progressing well on our cost and capital efficiency programs and I am especially pleased with the progress in field costs, drilling & well and modifications. And CapEx is according to plan.

Finally, our financial position is strong. Free cash flow is positive in the quarter with Brent at an average of \$53 per barrel.

And the Board of Directors proposes a first quarter dividend of NOK1.80 per share.

You have seen this morning our reported net income for the quarter. It was negative NOK35b. This is almost entirely due to asset impairments of NOK46b, mainly related to our US onshore and conventionals.

Let me spend some time to go through this. The impairments are a result of our decision to adjust our long-term planning assumptions. We have a fundamentally positive view on the oil and gas markets, but uncertainty persists.

The framework for our decisions needs to be solid. And given the uncertainty, we have decided to take a more cautious view. This triggered impairments. But the quality of the assets and the operational performance remains unchanged.

Adjusted for quarter-specific items, earnings were NOK23b. Lower prices impacted the result by NOK23b. But strong operational performance resulted in high production.

We also saw strong results from marketing and trading and I will come back to that later on when we go through the segments.

The strong dollar impacted all lines in the results. It increases revenues, expenses and capital employed.

The underlying trend on cost is positive.

Finally, our tax charge was NOK16b and the adjusted tax rate was 69.4%. Strong results from the mid and downstream with lower corresponding tax rates contributed to lowering the average tax on the corporate level. In a low price environment, our tax rate is typically higher, so you should not expect a rate at this level in the coming quarters.

So adjusted earnings after tax were NOK7b.

Our upstream operations in Norway were strong. The lower earnings are mainly due to lower prices. Production was up 4% and around 6% adjusted for divestments and we have delivered good production efficiency.

Valemon came on stream early in January on cost and time. And we started production from Oseberg Delta 2.

Then we have decided to postpone several projects. On Johan Castberg and Snorre 2040 we will spend more time to simplify the concepts and to increase the profitability. This is in line with our cost and capital efficiency efforts.

Needless to say, our highlight this quarter was submitting the PDO for Johan Sverdrup to the authorities in February, a project that will generate great value for decades. It is very robust at current oil prices and it will start up in late 2019.

The results from our upstream business outside Norway is impacted by lower prices. Operating momentum is good and production is high. We report higher depreciation and operating expenses in kroner, however in US dollars, operating costs were down 16% per barrel and we have reduced depreciation despite higher production from start-up and ramp-ups such as CLOV, Peregrino, Dalia, Bakken and Leismer.

MPR delivered a very strong result. Earnings are up 17% compared to the first quarter last year. There are several drivers for this. Higher refinery margins and good reliability across all plants and facilities, solid performance in European gas and in LNG, re-diversion of cargos to premium markets, strong results from our US value chains where we again added value to our upstream position through selling our Marcellus Gas in Toronto and on Manhattan.

We also delivered strong trading results in all areas, good performance by our colleagues at the trading desk. As you know, the results from MPR will fluctuate. I have earlier said that around NOK3b is a normal quarter. This is still valid.

If the business environment remains supportive with contango in the energy markets and strong refinery margins, you should expect results above such level.

I'm pleased to report another quarter with strong operational performance. We produced 2,056 mboe per day, which is up 4% from the first quarter last year on equity basis.

Net entitlement production was up 6% year on year. We grew equity production both in Norway and international, up by 4.2% and 3.4% respectively. And we continue to add new production with the startup of Valemon in Norway and ramp up of CLOV in Angola and Jack and St Malo in the Gulf.

Gas production was high. Troll has produced at high rate and we decided to produce additional volumes from Oseberg. We had stable operations and high production efficiency and our decline was around 5%, as usually. Of course, this is not about volume. It is about value and we see positive movements on production costs in the quarter.

In Norway, field costs were down by 8% reflecting lower external spending, less overtime as well as lower maintenance. Well maintenance and modifications were also down, as was the SG&A.

In the international segment, production costs in US dollars per barrel were down, as was DD&A despite the ramp-up in new deepwater fields as CLOV and Jack St Malo. In total, the international costs are down 10% in US dollars per barrel. So our colleagues are doing a great job and they are running the improvement agenda with strong momentum.

Despite a more challenging market, we were free cash flow positive in the quarter after dividend. Non-operational performance generates cash. But we paid only one tax installment on the NCS.

Our cash flow from operating activities was NOK46b. The change from last -- the change from the same period last year is mainly due to lower prices, partly offset by good operations including strong performance in our MPR segment with high cash flow after tax.

In the first quarter, we paid a dividend for the third quarter of 2014 and then we invested around NOK30b, or around \$4b.

Our net debt ratio is 24% which is an increase from 20% in the previous quarter. Around 2% of the increase is due to the impairments and round 1% is due to currency effects.

As we guided at the Capital Markets Day, we expect to see an increasing gearing at current prices, short-term and we will use our flexibility in our investment program to safeguard a solid balance sheet. And in February, we showed you the impact in a \$60, \$80 and \$100 scenarios.

Today we received the payment from the Shah Deniz transaction and this will reduce our net debt by two to 2-2.5 percentage points. And then we are currently running with more than \$20b in liquidity.

I want to give you a quick update on our exploration activities. As you know, we have made several discoveries in this quarter. On the NCS, we have made two gas discoveries in the Aasta Hansteen area. We are currently evaluating the Yeti discovery in the Gulf of Mexico. And the Mdalasini discovery continues our success in Tanzania.

We have previously discussed the work we are doing to improve drilling efficiency. Our performance confirms that we are on track. In deepwater Gulf of Mexico we are better than industry average and I would particularly highlight Yeti, the most efficient well drilled in deepwater Gulf of Mexico since 2010.

On the NCS, the Roald Rygg is the most efficient deepwater well ever drilled. So credit to our people in drilling and wells, both onshore and offshore for the strong improvements we see.

Looking forward, we have several interesting wells in the pipeline. You can see some areas we are working on now in the second quarter on the map in the Gulf, onshore, Canada, UK and Norway.

For longer-term opportunities, we were in January awarded new quality acreage on the NCS through interest in 15 licenses and we are working hard to deliver a strong application for the 23rd licensing round late this year.

So let me close by turning to the outlook. Our guidance of around \$18b in organic investments for the year remains firm. Year to date, organic CapEx is around \$4b. As we said at our Capital Markets Day, we will continue to prioritize high value growth and use our flexibility to increase returns and to balance cash in and cash out.

We have significant CapEx flexibility in 2017 and 2018 and we have the financial robustness to continue to invest in the best projects such as Johan Sverdrup. Others have to wait and they will benefit from optimizing the concepts and enjoy lower supply costs.

Ongoing developments will grow organic production by around 2% per year towards 2016 and we have many start-ups this year. Valemon, as you have seen, Goliat, Edvard Grieg and fast track number 11 in Norway, Bigfoot in the Gulf of Mexico, Corrib offshore Ireland, and then we will continue to ramp up Gudrun, CLOV in Angola and Jack and St Malo. Then production growth will be around 3 percentage points per year from 2016 to 2018.

Aasta Hansteen and Mariner will come on stream and then Johan Sverdrup will come in late 2019.

For 2015 we would have a somewhat lower turnaround activity. Full year maintenance is expected at 45,000 barrels per day. 95,000 barrels per day should be expected in the second quarter.

And finally, we continue to position for the long-term. We expect to spend around \$3.2b in exploration and I've just shared with you some more detail on our program this year.

So let me round off. Our reported income is impacted by impairments. This is due to a cautious view on macro, ensuring appropriate long-term investments.

Our adjusted earnings are impacted by lower prices. The underlying result is solid and we deliver positive free cash flow.

Our underlying operations are strong. Our financial position is robust. And we progress our efficiency programs with strong momentum.

As we presented at our Capital Markets update, we have visible growth to 2020 based on projects under execution. We have material CapEx flexibility in our non-sanctioned projects. And we will use it to deliver on our priorities.

And then we will see through that free cash flow covers dividend in 2018 at \$60, in 2017 at \$80 and in 2016 at \$100 per barrel. We are dealing forcefully with the situation at hand and we continue to position Statoil for the long-term, enhancing value creation through the cycle.

So thank you very much for your attention and then I leave -- will leave the word to Peter to guide us through the Q&A.

QUESTION AND ANSWER

Peter Hutton - Statoil ASA - SVP, Head of IR

Thank you, Torgrim. We will now open up for questions with Torgrim. We also have Svein Skeie, Senior Vice President Performance Management and Orjan Kvelvane, Senior Vice President for Accounting and Finance.

We've many people on the line so please keep to one question. I know that can be a tough request. With that, please Operator, could you cue in the first question?

Operator

Oswald Clint, Bernstein.

Oswald Clint - Sanford Bernstein - Analyst

Yes, thank you very much Peter. Thank you very much Torgrim. Could I just ask a question on the cost reductions that you spoke about, Torgrim? The 8% reduction in the field costs and can you give us the same numbers for the reduction in modifications costs and the SG&A, please and just whether those numbers are tracking your expectations so far in 2015? Thank you.

Torgrim Reitan - Statoil ASA - CFO

Okay. Thank you, Oswald. So yes, the progress on the improvement efforts are very good and that was the background why we increased our efficiency target at the Capital Markets Day. We see more early effects than we had planned for. So that's really good news.

So field cost is coming down. On modification, we see around 20% reduction in modifications. And when it comes to the SG&A, that varies a bit, but it is -- we see a drop in SG&A over several quarters due to the reduction in staffs mainly.

Oswald Clint - Sanford Bernstein - Analyst

That's great. Thank you.

Operator

Rob West, Redburn Partners.

Rob West - Redburn - Analyst

Hi there. Thanks very much for taking my question. I guess I have a question on the cash generation from the quarter. If we look at the number, it's almost a third of the consensus is cash flow generated in that one quarter alone there. Are there any one-off elements on a cash tax side that you want to highlight, or any other areas that you have more visibility on than we do that might mean that that run rate should slow down? Thank you.

Torgrim Reitan - Statoil ASA - CFO

Okay. Thank you Rob. So yes, the first quarter cash flow was strong. It is free cash flow positive. I think it's important for me to remind you that there are differences between quarters. Next quarter there will be a higher maintenance in the -- related to production.

We will also pay two tax payments in the next quarter instead of one that we have done this quarter. And we have said that you should expect an increase in the gearing during the year. And that remains firm.

But I'm very glad to see that all the work put into increased efficiency and reduced cost are actually translating into a higher cash flow.

Rob West - Redburn - Analyst

Great. Thank you. Thanks.

Operator

Biraj Borkhataria, RBC.

Biraj Borkhataria - RBC - Analyst

Hi Torgrim, Peter. Thanks for taking my question. It's on MPR. It looks like another cold winter in North America and another record Q1 for the division. Could you quantify the contribution from your pipeline assets located near the Marcellus to the MPR results? Thanks.

Torgrim Reitan - Statoil ASA - CFO



Okay. Thank you Biraj. So, as you know, we entered into transport capacity a few years back out of Marcellus so we get the gas to Toronto and Manhattan. There is a significant uplift. The local Marcellus prices have been below Henry Hub prices. And the prices in the Toronto area have been around \$5 and in Manhattan around \$7 for MMBtu. So there is significant value creation in -- from that business.

I think it's fair to say that it is very weather dependent. So typically these assets generate strong profits in the winter while they are not sort of more balanced during the summer months.

Biraj Borkhataria - RBC - Analyst

Thanks very much.

Operator

Jon Rigby, UBS.

Jon Rigby - UBS - Analyst

Yes, thank you Torgrim. Can I just ask on the impairment? The -- looking forward, if you have changed your view on long-term oil prices which is generated as impairment charge, can we expect some change of investment profile over the next two to three years versus the one you were describing in February because you're screening at a lower planning price, or was there something of a discrepancy between the planning scenario you were describing in February and the way that the 2014 accounts were prepared? I'm a little puzzled.

Torgrim Reitan - Statoil ASA - CFO

Okay. Thank you, Jon. So what we have changed is the long-term price assumptions from 2018 and onwards. So there will be no change in the outlook and the production plans from that change in price assumption.

So the beauty of these assets is that we can actually react to market realities as we go. And we see very promising developments on drilling efficiency and completion and also the resources available in the area.

Jon Rigby - UBS - Analyst

Right. So why impair them in the first place?

Torgrim Reitan - Statoil ASA - CFO

This is -- the impairment comes from the fact that the assets were acquired in a higher price environment.

Jon Rigby - UBS - Analyst

Right.

Torgrim Reitan - Statoil ASA - CFO

And we have now put in place a lower price assumption than the acquisition was based on. And that has triggered the impairment.

Jon Rigby - UBS - Analyst



Okay. All right. Thank you.

Operator

Haythem Rashed, Morgan Stanley.

Haythem Rashed - Morgan Stanley - Analyst

Thank you, gentlemen. One clarification and one question, if I may. Just very quickly on the clarification. The field costs down 8% and the OpEx per barrel and DPI down 16%. Those are both year-on-year figures, I presume? I just wanted to relate it to the 6% improvement that you've seen on field costs that you highlighted at the Capital Markets Day presentation.

My question is on the unplanned losses. And you talked about that being better than expected in 2014 and contributing to the -- to better results. Can you just give us a sense on how that evolved in 1Q? Whether you've seen that actually come down even further from the levels that you managed to achieve in 2014? Thank you.

Torgrim Reitan - Statoil ASA - CFO

Okay. Thank you very much. On the field cost, that is quarter on quarter in -- on the Norwegian Continental Shelf. And when we talked about this in the fourth quarter that was year-on-year 2014 versus 2013. This number is quarter-on-quarter.

When it comes to the international business, the reduction in cost is measured in dollars while our accounts are in Norwegian krone. There might be a bit of -- this is an underlying dollar business so it makes sense to measure that in dollars.

On unplanned losses, strong regularity but not as strong as first quarter last year. And that is mainly due to the Gudrun field where we have had some outages. But apart from that, very strong performance.

Haythem Rashed - Morgan Stanley - Analyst

Great. Thank you.

Operator

Mark Bloomfield, Deutsche Bank.

Mark Bloomfield - Deutsche Bank - Analyst

Thank you. A question on DPN depreciation please. On a rolling four-quarter basis it looks like your unit depreciation in that business has been trending up quite sharply. Just wondered if you can help us understand if there's any unusual factors in there beyond project start-ups and perhaps provide us with some forward guidance for where that's likely to go over the next couple of years? Thanks.

Torgrim Reitan - Statoil ASA - CFO

Okay. Thank you Mark. On the DD&A, per barrel, on the NCS, it is an increase from last year. There have been some ... up to NOK95 per barrel. The drivers behind this is related to reserve revisions, to a large extent. The proved reserves have been taken down a bit. But due to Njord, it's taken onshore to -- for a yard for service and then we have to de-book, if you like, the reserves related to that. Those reserves will come back when we take it back offshore afterwards. So that is the main driver. A little bit of a peculiar effect this quarter.

Mark Bloomfield - Deutsche Bank - Analyst

Thanks.

Operator

John Olaisen, ABG Sundal Collier.

John Olaisen - ABG Sundal Collier - Analyst

Yes, good afternoon. A question related to the impairments. Could you tell us the tax effects of the impairment both non-cash and cash effects going forwards?

And, secondly, how will the impairments impact the unit depreciation when you report the numbers going forward, please?

Torgrim Reitan - Statoil ASA - CFO

Okay. Thank you. So I'll leave the answer to Orjan Kvelvane, my Head of Accounting.

Orjan Kvelvane - Statoil ASA - SVP, Accounting & Finance

So based on where these impairments are taken, and as you see from the report we have a significant part in the US or in North America and we are not having reported taxes on these areas. So they are quite similar after tax as pre-tax.

When it comes to unit depreciation, there will be an effect, but we haven't got any exact number for you right now.

John Olaisen - ABG Sundal Collier - Analyst

Thank you.

Operator

Michael Alsford, Citigroup.

Michael Alsford - Citigroup - Analyst

Thank you. Thanks for taking my question. Just a quick question on Johan Sverdrup. I was just wondering whether you could comment on obviously the NPD submission of the plan of development, talking about the fact that the timing on that project looks pretty ambitious, targeting the start-up in fourth quarter of 2019 and the CapEx guidance that you've provided looks a little bit optimistic too. I just wondered whether you could just comment on -- maybe where you differ and why you're confident on the fourth quarter 2019 start-up? Thank you.

Torgrim Reitan - Statoil ASA - CFO

Thank you, yes. We do very rigid analysis and planning when we put forward PDOs like this. And our plan remains firm late 2019, and also the investment levels. So far, when we see to contract awards and all of that, makes us -- it all confirms the picture that we have based our decision upon.

Then NPD has a role of having a second voice and challenge and that's much appreciated.

Michael Alsford - Citigroup - Analyst

Okay. Thanks. And maybe just a follow up just on the contingency you have around that start-up date. Is there much contingency built into your current schedule or is that the -- as a best case type scenario that you offer the market? Thanks.

Torgim Reitan - Statoil ASA - CFO

No. This is all of our -- all our analysis and all our planning. Certainly have a certain amount of contingency in there, so it shall reflect the expected date and the expected investments.

When that is said, this is a huge development and it will go over several years. But as you know, we have a pretty strong track record on delivering on projects currently. So we are confident on this project.

Michael Alsford - Citigroup - Analyst

Okay. Thank you.

Operator

Lydia Rainforth, Barclays.

Lydia Rainforth - Barclays - Analyst

Thanks and good afternoon. On the impairments, if I can just come back to that, it does -- because I know you've had to take the impairments given the oil price coming down to \$80, does suggest that you needed a higher oil price than that when you acquired the assets to make them work. Can you just talk through from a corporate standpoint, when you're looking at acquisitions, how you would assess the downside protection that you want in there as to how robust or as low a price as you would want it to be?

And partly related to that is have you had any conversations with Talisman and soon to be Repsol, in terms of the ownership of that joint venture that you have in the US? Thanks.

Torgim Reitan - Statoil ASA - CFO

Okay. Thank you, Lydia. So when we acquired the assets, since then a lot of things have changed in the assets. First of all, prices have come down and differentials have widened up more than what we assumed.

On the other side, the resource potential of the assets and what we get out of the reservoirs are much larger than what we based the acquisition on. And we also see a significant improvement in drilling efficiency and completion efficiency. So there are several moving parts there.

Going forward, these are important assets to us. They perform well and they certainly have an important part of Statoil's future.

But you are right, these assets were acquired in a period of oil prices above \$100 per barrel and that was also reflected into the acquisition price, making them more vulnerable to the changes in macro, as we have seen over the last six months.

Then on your last question on Talisman, we cannot comment on any of those types of things.

Lydia Rainforth - Barclays - Analyst

Okay. Perfect. Thank you very much.

Operator



Teodor Nilsen, Swedbank First Securities.

Teodor Nilsen - Swedbank First Securities - Analyst

Good afternoon and thanks for taking my question. One question on your CapEx flexibility versus production. You had previously highlighted that you could cut CapEx by \$5b to \$7b from 2017 and beyond. Assuming that you use your full CapEx flexibility and cut CapEx by \$5b to \$7b, how much should we assume that production in 2020 will decline compared to the scenario where you do not cut your CapEx or use the maximum CapEx flexibility?

Torggrim Reitan - Statoil ASA - CFO

Thank you, Teodor. So we will grow our production all the way to 2020 based on projects that are already under execution. So the growth will come independent on us using the flexibility. So the flexibility will impact the period beyond 2020.

The one -- the flexible part in the short-term is around conventional US business and that will be adjusted up and downwards based on market situations.

Teodor Nilsen - Swedbank First Securities - Analyst

So just to be clear, if you invest \$12b per year going forward, you will actually be able to have at least as high production as you had in 2014?

Torggrim Reitan - Statoil ASA - CFO

Yes. The flexibility in the investment program increases over years. So there is lower flexibility in the nearer years, but when you get to 2017 and 2018 there is significant flexibility.

Teodor Nilsen - Swedbank First Securities - Analyst

That's clear. Thank you.

Operator

Thomas Adolff, Credit Suisse.

Thomas Adolff - Credit Suisse - Analyst

Hi. Thanks for taking my question. Very easy ones hopefully. Impairment charges aside on your US assets, I wondered how much you've been able to lower your breakeven over the past six months since the oil price decline? I guess that's where you've seen the biggest movements in costs to the downside.

And another question quickly related to the US, but this one on the US Gulf of Mexico. You said that you're quite encouraged by the Yeti discovery. I wondered whether you're also bidding for new acreage around that discovery? Thank you.

Torggrim Reitan - Statoil ASA - CFO

Okay. Thank you Thomas. Yes, we see significant improvements in the US assets and on the efficiency. So drilling efficiency as far as I -- let me see here. In Eagle Ford we have improved drilling efficiency by some 70% over the last couple of years, in Bakken, between 40% and 50%, and in Marcellus, also significant improvement in efficiency. And we also see that cost levels are being adjusted.

When it comes to new acreage in the Gulf of Mexico, I cannot comment specifically on that.

Thomas Adolff - Credit Suisse - Analyst

Can I just go back to the breakeven question on the US? I was more interested in specifically how much in terms of dollar per barrel you've been able to lower it over the past six months or so, just to get a sense for how quickly your business there is improving.

Torgrim Reitan - Statoil ASA - CFO

I don't have that number with me, so I suggest that we follow-up that up within Investor Relations afterwards.

Thomas Adolff - Credit Suisse - Analyst

Okay. Thank you.

Operator

Anish Kapadia, TPH.

Anish Kapadia - TPH - Analyst

Hi. Good afternoon. I wanted to ask about your US production given it's going to be a big contributor to your post-tax cash flow over the next few years.

In particular the offshore, you've got some major projects coming online or they've just come online. And I was wondering if you could run through for the likes of Bigfoot, Jack, Julia and Heidelberg when do you expect each of those projects to get to plateau, how long do they stay at plateau, and then what kind of decline rates do you expect after that?

And just related to that as well, just in general, in terms of your onshore production, what kind of growth rates do you expect in this kind of current environment? Thank you.

Torgrim Reitan - Statoil ASA - CFO

Thank you. That was also a very detailed question, so when it comes to production profiles and all of that, I suggest that my great Investor Relations teams have that discussion afterwards.

But you are absolutely right, there is a stream of US production coming on. We have Bigfoot in early 2016. We have also Julia in 2016 and Heidelberg coming on in addition to the production we already have there.

So this is an important part of the growth in the cash flow from operations because we are not paying tax in the US currently due to the tax position.

And then over to Svein Skeie.

Svein Skeie - Statoil ASA - SVP, Performance Management

Just a comment on the current production, and from the Gulf of Mexico which has increased from 14,000 barrels last year with 68%. Now it's up to -- we have increased it 14,000 barrels up to 35,000 barrels per day coming from Jack St Malo, among others which have started.

Anish Kapadia - TPH - Analyst

It's just a follow-up. What I was just really trying to get a sense of is are these generally developments where they get to plateau quickly but then very quickly come off plateau as well so we were likely to see pretty sharp decline rates quite soon after reaching plateau?

Torgrim Reitan - Statoil ASA - CFO

Thank you. I think we will deal with those details afterwards, so thank you.

Anish Kapadia - TPH - Analyst

Okay. Sure. Thank you.

Operator

Aneek Haq, Exane BNP Paribas.

Aneek Haq - Exane BNP Paribas - Analyst

Hi. Thanks very much for taking my question. Just a question on the NOC movement, please. If I pick up your sensitivity correctly from 2014, it's basically allowed you to offset a lot of the oil price weakness that you've had in Q1. And I'm just wondering if you've taken any steps through Q1 to perhaps hedge out currency effects and what kind of impact that might have on your sensitivity through 2015, please? Thank you.

Torgrim Reitan - Statoil ASA - CFO

Yes, thank you very much. So a few words on how we run this Company because we define ourselves as a dollar company, running our business in dollars. We are keeping our debt in dollars and we are risk managing the Company based on dollars and then we present ourselves in Norwegian kroner. So that's the basis for our decisions.

So the only hedging we do on the currency front is from taxes are incurred until they are paid and also the dividends from its incurred until it's paid. So we do translate, or exchange from dollar to kroner every day to match the growing krone commitment.

Aneek Haq - Exane BNP Paribas - Analyst

Okay. Shall we stick with the same guidance as you said at the end of 2014 for the sensitivity?

Torgrim Reitan - Statoil ASA - CFO

Yes, we do.

Aneek Haq - Exane BNP Paribas - Analyst

Okay. Perfect. Thank you very much.

Operator

Mehdi Ennebati, Societe Generale.

Mehdi Ennebati - Societe Generale - Analyst



Hi. Good afternoon all. One question. I would like to come back to your declarations during the CERA week. You highlighted -- management highlighted that Statoil is looking at acquisition opportunities. I just wanted to know if you consider the current valuation of the oil and gas companies attractive currently? Thank you.

Torggrim Reitan - Statoil ASA - CFO

Thank you very much. We will never comment on questions related to M&A. So sorry for that.

Mehdi Ennebati - Societe Generale - Analyst

All right. Maybe in that case, maybe just one question on Gudrun. You've had some gas leak by mid-February. If I remember well, you've started one producing well since then. Can you just maybe update us on this?

Torggrim Reitan - Statoil ASA - CFO

Let me see here. I'm not sure I got the question. Could you please repeat it?

Mehdi Ennebati - Societe Generale - Analyst

Yes, of course. So you've had a gas leak on Gudrun, which was ramping up production.

Torggrim Reitan - Statoil ASA - CFO

Ah yes, I understand. Yes. Sure, absolutely, so apologize. Gudrun was out for one month and Gudrun is now running.

Mehdi Ennebati - Societe Generale - Analyst

At full capacity?

Torggrim Reitan - Statoil ASA - CFO

At full capacity.

Mehdi Ennebati - Societe Generale - Analyst

Thank you very much.

Operator

Morten Lindbaeck, Fondsfinans.

Morten Lindbaeck - Fondsfinans - Analyst

Hello, thank you. Torggrim, you say that you're going to spend more time on Snorre 2040 and the Johan Castberg development. Last week, the government presented the Johan Sverdrup proposition to the Storting which also included a white paper part. Well let's say that oil companies have an obligation to make the most out of potential resources in their license. So I believe that this also includes the Snorre 2040 as a time marginal large field. So what is the status of Snorre 2040? Is it little flexibility? Are you obliged to develop? Is that a correct interpretation?

Torgrim Reitan - *Statoil ASA - CFO*

Our job is to maximize the value of these assets and that will benefit both shareholders and society. So what we are doing, we are looking at simple concepts and optimize the whole development. And I am sure that Snorre 2040 will be developed.

Morten Lindbaeck - *Fondsfinans - Analyst*

Thank you.

Operator

Marc Kofler, Jefferies.

Marc Kofler - *Jefferies - Analyst*

Hi there, Torgrim. Just a quick question please, coming back to the US. I was wondering if you could give a few -- a bit more color around your operations in the Marcellus and what the operating environment is like over there at present, particularly thinking about the rigs you're running and the trajectory going forward? Thanks very much.

Torgrim Reitan - *Statoil ASA - CFO*

Thank you very much. So currently we are running five rigs in Marcellus. One is run by Chesapeake, two by Southwestern and one by ourselves. So work there are continuing and we see positive developments on all cost categories.

In the current environment, it is extremely important to take care of your gas in these markets and that is why the pipelines out of Marcellus to both Toronto and to Manhattan have been so important and such great values in this base.

Marc Kofler - *Jefferies - Analyst*

Thanks. And sorry, just to come back on the -- any guidance around a near-term trajectory?

Torgrim Reitan - *Statoil ASA - CFO*

Well we will keep running with the current rig rate if we found that appropriate. But that can be adjusted if that is found appropriate.

Marc Kofler - *Jefferies - Analyst*

Okay. Great. Thanks very much.

Operator

Oddvar Bjorgan, Nordea.

Oddvar Bjorgan - *Nordea - Analyst*

Yes, hello. It's actually back to the impairment tests again. I guess to say that you're using \$80 oil price as the price deck. Can you also say something about what you have assumed with respect to natural gas prices?



Torgrim Reitan - Statoil ASA - CFO

Okay. Thank you, Oddvar. So we have also adjusted downwards the gas prices in all markets, as a follow on from that, both in the US, in Europe and in Asia. I'm not prepared to give the specific prices, but a similar approach as we have done on oil price.

Oddvar Bjorgan - Nordea - Analyst

Could you say something about the split of impairments Bakken relative to Marcellus?

Torgrim Reitan - Statoil ASA - CFO

So we -- we give a deeper split than the business area levels. So the NOK46b is split into NOK30b related to the US and conventional, NOK11b the rest of the US, which is Gulf of Mexico, and then the rest of world is NOK4b, where a very limited part -- or there is NCS impairments there as well but they are all limited.

Oddvar Bjorgan - Nordea - Analyst

Okay. Thank you.

Operator

Neill Morton, Investec.

Neill Morton - Investec - Analyst

Thank you. Good afternoon. I thought I'd spare you another question on the write downs. I wanted to ask about the recent appointment of your Chief Operating Officer. Not all big oil companies have a COO. So why didn't you feel you needed one before and why do you need one now? Thank you.

Torgrim Reitan - Statoil ASA - CFO

Okay. Thank you. So Anders Opedal is -- has been appointed as the Chief Operating Officer and that is to underline the importance of delivering on the efficiency program and making sustainable change to the way we operate our business.

It is all about -- it is all about addressing the fundamental challenge of our industry, which is complexity. Simplicity is much harder than complexity.

And he has a strong track record in delivering on these areas. This is a strong signal from the new CEO that he is serious about this.

Neill Morton - Investec - Analyst

Great. Thank you.

Operator

Nitin Sharma, JPMorgan.

Nitin Sharma - JPMorgan - Analyst

Torgrim, hi. Afternoon. A question on gearing. It's more than doubled since end Q1 and fair to say it's in line with what you'd guided. But at what level does this gearing become a source of concern? Thank you.

Torgrim Reitan - Statoil ASA - CFO

Thank you, Nitin. So it has increased this quarter mainly due to currency and impairment. What is very important for me is to run with a very solid balance sheet and with sufficient liquidity and that ensures us to be able to take long-term decisions and be consistent through the cycle.

We are receiving today the money from the Shah Deniz transaction. That will reduce the gearing by 2 to 2.5 percentage points. But you should expect it to grow further the rest of the year if the current prices continue.

We have guided on a gearing range between 15% and 30% that we want to navigate within. That remains firm. But you know a 30% gearing is not a hard line, but it is sort of an indication of a range that we want to operate within.

It is a much lower gearing that we have run the company on earlier, but we find it strategically important to be financially solid.

Nitin Sharma - JPMorgan - Analyst

Torgrim, can I just ask one more on impairments please? So, I get your explanations in terms of the rationale behind and why these are flowing through. The question is more on timing. So you recently had your presentation in February and so soon after that we've seen some recovery in commodity prices, if anything else. Why now, is the question? Is there something else that you've seen, that you've discovered? Or why instead of February now such a big impairment that's coming through? Please.

Torgrim Reitan - Statoil ASA - CFO

Thank you very much. We make changes to our short term price outlook regularly. So this is the long-term price outlook. And we see that -- you know the uncertainty and volatility is large and the uncertainty is still there. But the most important thing for us, for me and my boss, Eldar Saetre, is to provide a very solid fundament for the investments we are going forward. And we find it appropriate to take a more cautious view in the current environment. So that is the driver behind it.

Nitin Sharma - JPMorgan - Analyst

Thank you, Torgrim. Thank you.

Operator

Thank you. There's currently no more questions in the queue.

Peter Hutton - Statoil ASA - SVP, Head of IR

Thank you. Well with that I'd like to thank everybody for their participation this afternoon. As always, Investor Relations will be available for any follow-up question.

And with that, I wish you a happy bank holiday weekend, or starting Friday for those of you in Norway and on Monday in the United Kingdom. Thank you very much. Bye-bye.

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